

30 August 2011

Pruksa Real Estate

Property
(Residential)
Neutral

Punching through the barriers; record transference in 2H11

Investment thesis: The recent share price correction offers an excellent entry point, as market concerns about execution risk will cease entirely in 3Q-4Q11. The new prefabrication plant more than doubles capacity, so transference will accelerate sharply in 2H11. PS stands to benefit the most from govt policies aimed at helping first-time home buyers. Furthermore, its GM is less exposed to higher wage cost pressure than the GMs of other developers, as its per-unit labor cost is substantially lower. We prefer PS for its superior FY11 earnings growth profile (23% versus a 13% sector average). Our BUY rating stands with a YE11 target price is Bt27, pegged to a PER of 13x (1SD above its FY06-10 mean). The stock trades at an undemanding FY11 PER of 9.3x, which drops to 7.4x for FY12, a discount to its FY06-10 average of 9.6x.

To benefit the most from govt home ownership policies: The new govt aims to help finance low-income demographics into houses (0% mortgage rate for the first five years). PS has the biggest residential market share because of its low-end focus (average price of Bt2m/unit). Historically, its share price has outperformed the ResDev index every time there was anticipation of govt policies favoring low-end home buyers.

Prefab plant will turn record backlog into record 2H11 revenue: The new factory, which started up in late May, has recently been running at a utilization rate of 70-80%. It will enable much swifter transference in 2H11. We anticipate a revenue jump of 67% YoY and 47% HoH in 2H11. Top-line growth will drive 3Q11 profit expansion, both YoY and QoQ. 4Q11 earnings will be the best of the year. The new plant is fully automated, so requires only a small labor force and makes fewer production errors than the original facility. Most importantly, it breaks even at a utilization rate of only 56%—much lower than the break-even run rate of 92% for the other one.

Clear earnings visibility: Thanks to a record high presales backlog of Bt36bn at end-June, our FY11 revenue forecast of Bt30bn is fully secured. Note that our top-line projection is more conservative than management's target of Bt32bn. The strong domestic performance more than offsets the disappointing progress of projects in the Maldives, India and Vietnam.

BUALUANG RESEARCH

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BUY

 (maintained)

Target Price: Bt27.00
Price (29/08/11): Bt19.00
PS TB / PS.BK

Key Ratios & Statistics

Market cap	Bt41.96bn
12-mth price range	Bt16.00/Bt24.80
3-mth avg daily volume	Bt121.17m
# of shares (m)	2,206.8
Est. free float (%)	25.9
Foreign limit (%)	40.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(0.9)	3.5	(38.2)
Absolute	(7.8)	1.6	(22.1)

Financial summary

FY Ended 31 Dec	2010	2011E	2012E	2013E
Revenues (Btm)	23,307	30,026	37,605	44,070
Net profit (Btm)	3,488	4,453	5,578	6,676
EPS (Bt)	1.58	2.02	2.53	3.03
BLS/Consensus (x)	n.m.	1.05	1.13	1.11
EPS growth (%)	-3.7%	+27.7%	+25.3%	+19.7%
Core profit (Btm)	3,628	4,453	5,578	6,676
Core EPS (Bt)	1.64	2.02	2.53	3.03
Core EPS growth (%)	-4.3%	+22.7%	+25.3%	+19.7%
PER (x)	11.8	9.3	7.4	6.2
Core PER (x)	11.4	9.3	7.4	6.2
EV/EBITDA (x)	10.8	8.5	7.1	6.0
PBV (x)	2.7	2.2	1.8	1.5
Dividend (Bt)	0.47	0.61	0.76	0.91
Dividend yield (%)	2.5	3.2	4.1	4.9
ROE (%)	24.7	26.2	26.8	26.3
Net gearing (x)	0.8	0.8	0.7	0.6

CG Rating - 2010



Company profile

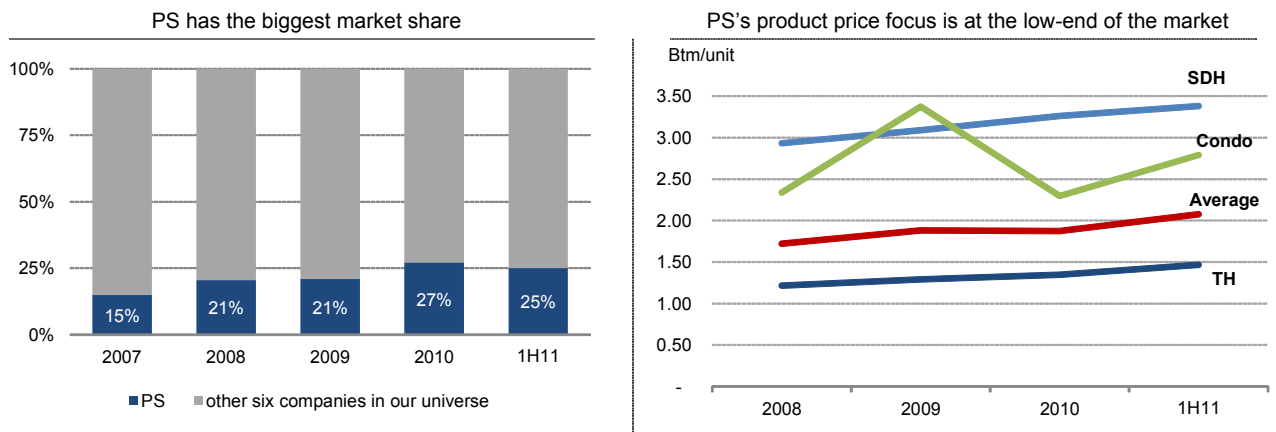
Preuksa Real Estate Plc (PS) is the biggest residential developer in Thailand. It focuses on the low- to mid-income segments in Bangkok. Its business model is unique—the firm owns pre-cast concrete factories that make many component parts for detached houses, THs and condos. PS targets at least 25% growth in revenue per year.

Outlook

To benefit the most from govt home ownership policies: The govt aims to help finance low-income demographics into houses (0% mortgage rate for the first five years). PS has the biggest residential market share because of its low-end focus (average price of Bt2m/unit). Historically, its share price has outperformed the Residential Developer index every time there was anticipation of govt policies favoring low-end home buyers. As shown in Figure 2, PS's price surged 11% in a week in late April on the Ministry of Finance's announcement of cheap GHB mortgages for low-income earners, while the ResDev index as a whole rose only 6%. Furthermore, the week before the Puea Thai govt's policy announcement on Aug 23-24, PS also outperformed the ResDev index.

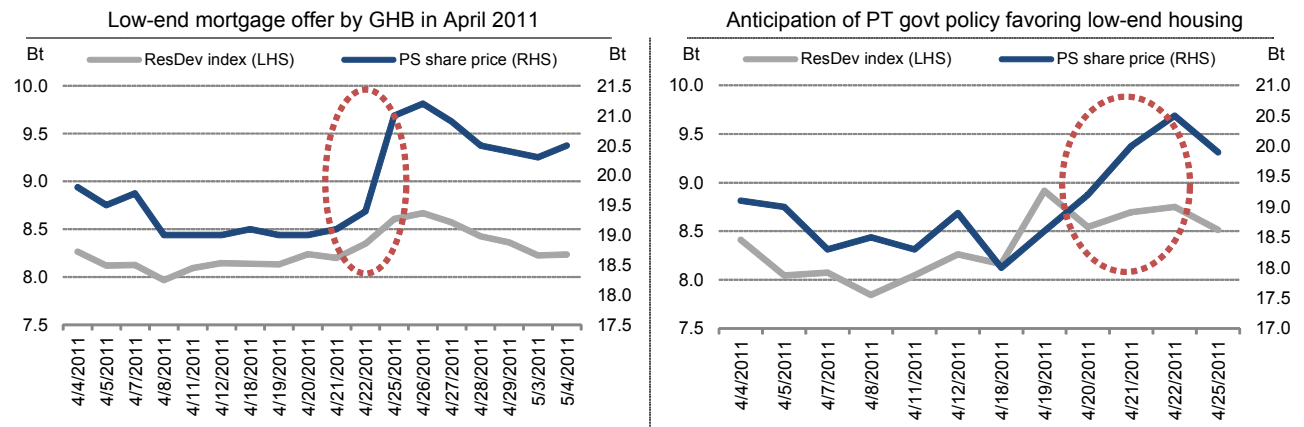
Competitive labor cost advantage: In an environment of rising labor costs, PS will sustain a high GM relative to its peers. Wage costs represent 15% of its total construction cost, but typically 25-30% of the costs of other developers. PS's prefab factory model is unique. Management is confident that it can maintain GM at 36-38% (higher than the mean range for the sector of 32-35%).

Figure 1: PS leads total market share focused at the low-end of the market



Sources: Company data, Bualuang Research

Figure 2: PS's share price has outperformed the sector on the unveiling of favorable govt home ownership policies



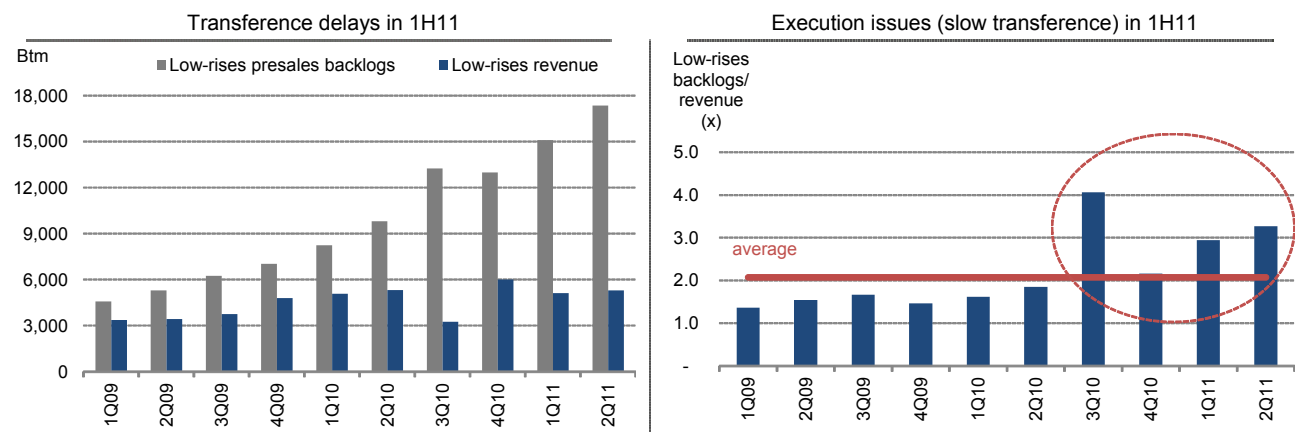
Sources: SETSMART, Bualuang Research

Prefab plant will turn record backlog into record 2H11 revenue: The market became concerned about execution risk earlier this year (presales have been strong, but capacity constraints have made for lagging revenue recognition). Those concerns will cease entirely now that the new prefabrication plant is running at 70-80% capacity. It adds another 430 units/month of housing production capacity to the 260 units/month maximum run rate of the original facility. The housing production capacity expansion will enable much swifter transference in 2H11. We anticipate a jump in revenue of 67% YoY and 47% HoH in 2H11. Top-line growth will drive 3Q11 profit expansion, both YoY and QoQ. 4Q11 earnings will be the best of the year.

The new plant not only more than doubles housing production capacity, it is technologically superior to the existing facility. It is fully automated, so requires only a small labor force and makes fewer production errors than the original plant. Most importantly, the new prefab facility breaks even at a utilization rate of only 56%—much lower than the break-even run rate of 92% for the other one.

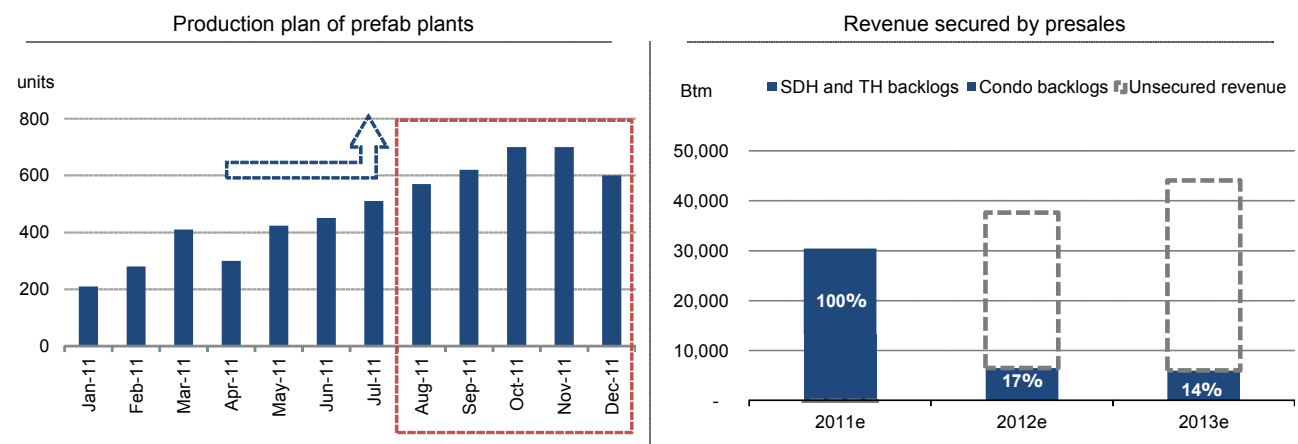
Clear earnings visibility: Thanks to a record high presales backlog of Bt36bn at end-June, our FY11 revenue forecast of Bt30bn is fully secured. Note that our top-line projection is more conservative than management’s target of Bt32bn. The strong domestic performance more than offsets the disappointing progress of projects in the Maldives, India and Vietnam. At end-June, TH and condo bookings beat company targets—the TH backlog to transfer this year is Bt13.9bn (the target was Bt13bn); the condo backlog to be recognized this year is Bt6bn (PS’s target was Bt4bn).

Figure 3: PS has sustained strong presales, despite the 1H11 transference bottleneck



Sources: Company data, Bualuang Research

Figure 4: The doubling of production capacity will transform the record backlog into unprecedented revenue in 2H11



Sources: Company data, Bualuang Research

Risks

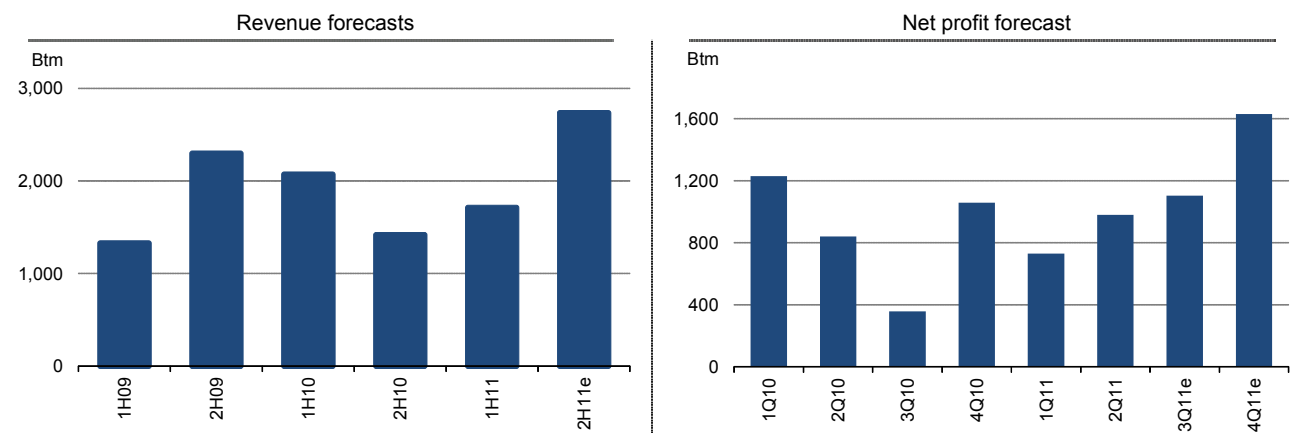
Economic risk: Any disappointment over the scale of the domestic economic recovery would hit residential demand. Thai GDP growth correlates closely with house registration growth (GDP leads housing demand growth by two quarters).

Failure of overseas projects: PS's international projects have progressed slowly to date. Revenue recognition from the condo project in the Maldives was delayed from 2Q11 to 3Q11. There is also risk of low margins in the early stages of project development. Furthermore, baht appreciation might also bring about foreign exchange losses on overseas revenue recognition. Over the long-term, we are concerned that provisions might be set for overseas project losses. But while progress has been disappointing, the numbers are small at this stage.

Recommendation and valuation

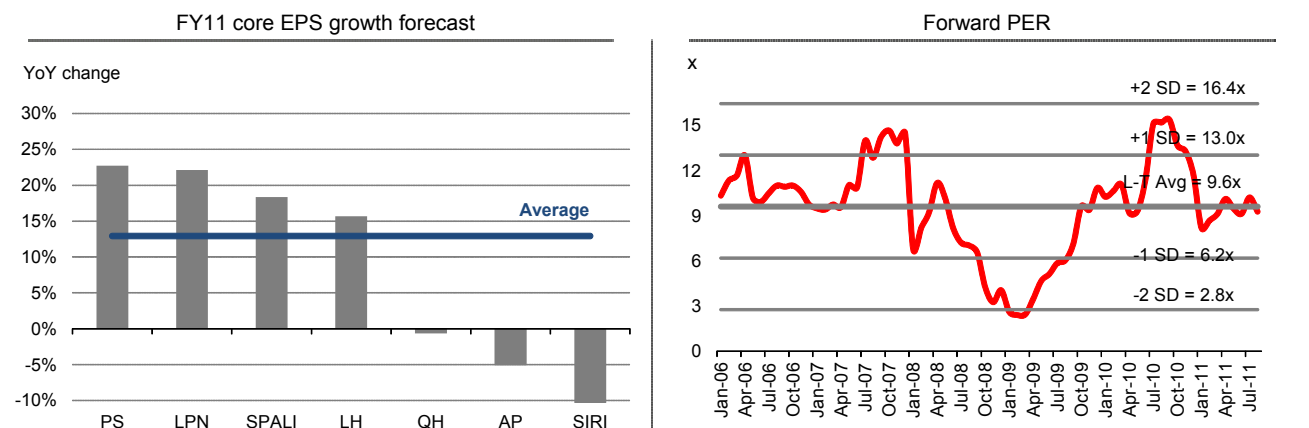
Deserves a valuation premium for its superior profit growth profile: The recent share price correction offers an excellent entry point, as market concerns about execution risk will cease entirely in 3Q-4Q11. The new prefabrication plant more than doubles capacity, so transference will accelerate sharply in 2H11. Among the stocks in the Residential Developer sector, PS stands to benefit the most from govt policies aimed at helping first-time home buyers. Furthermore, its GM is less exposed to higher wage cost pressure than the GMs of other developers, as its per-unit labor cost is substantially lower. We prefer PS for its superior FY11 earnings growth profile (23% versus a 13% sector average). Our BUY rating stands with a YE11 target price is Bt27, pegged to a PER of 13x (1SD above its FY06-10 mean). The stock trades at an undemanding FY11 PER of 9.3x, which drops to 7.4x for FY12, a discount to its FY06-10 average of 9.6x.

Figure 5: Strong 2H11 earnings outlook (peak of the year in 4Q11)



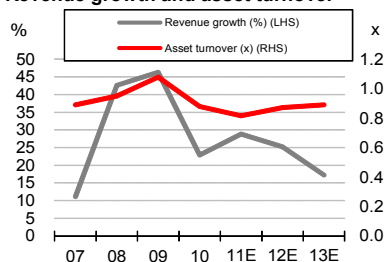
Sources: Company data, Bualuang Research

Figure 6: Undemanding multiples for the sectoral profit growth leader

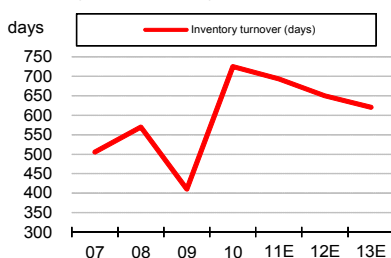


Sources: SETSMART, Company data, Bualuang Research

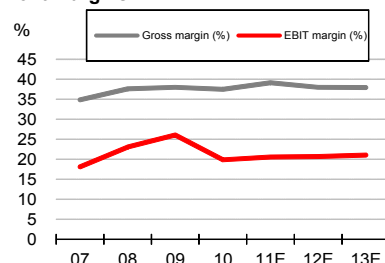
Revenue growth and asset turnover



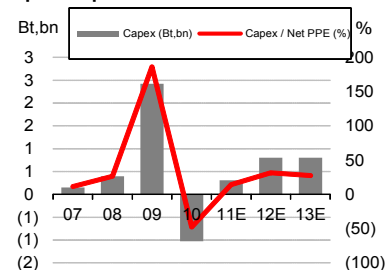
Inventory turnover (days)



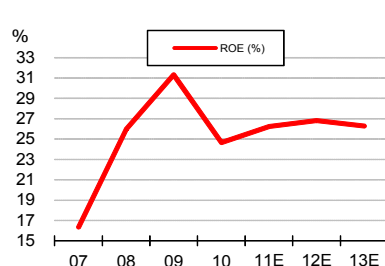
Profit margins



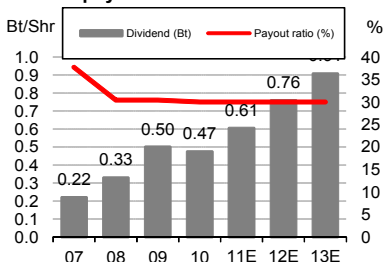
Capital expenditure



ROE



Dividend payout

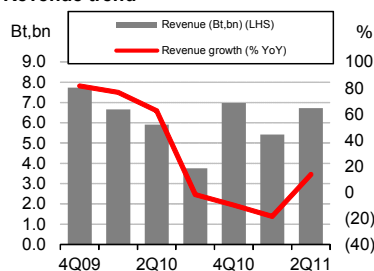


Financial tables

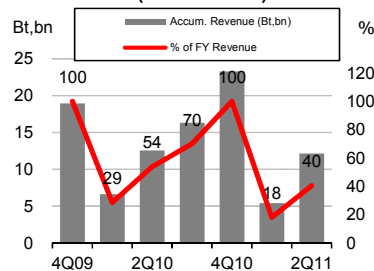
	2009	2010	2011E	2012E	2013E
PROFIT & LOSS (Btm)					
Revenue	18,967	23,307	30,026	37,605	44,070
Cost of sales and services	(11,749)	(14,561)	(18,271)	(23,297)	(27,339)
Gross profit	7,218	8,746	11,755	14,308	16,731
SG&A	(2,271)	(4,103)	(5,570)	(6,524)	(7,448)
EBIT	4,947	4,643	6,185	7,783	9,283
Interest expense	(47)	(67)	(175)	(214)	(268)
Other income/exp.	67	100	100	100	100
EBT	4,967	4,676	6,110	7,669	9,115
Corporate tax	(1,177)	(1,048)	(1,658)	(2,091)	(2,439)
After-tax profit (loss)	3,790	3,628	4,453	5,578	6,676
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	-168	-140	0	0	0
Net profit (loss)	3,622	3,488	4,453	5,578	6,676
Reported EPS	1.64	1.58	2.02	2.53	3.03
Fully diluted EPS	1.64	1.58	2.02	2.53	3.03
Core net profit	3,790	3,628	4,453	5,578	6,676
Core EPS	1.72	1.64	2.02	2.53	3.03
EBITDA	5,163	4,890	6,533	8,153	9,733
KEY RATIOS					
Revenue growth (%)	46.3	22.9	28.8	25.2	17.2
Gross margin (%)	38.1	37.5	39.1	38.0	38.0
EBITDA margin (%)	27.2	21.0	21.8	21.7	22.1
Operating margin (%)	26.1	19.9	20.6	20.7	21.1
Net margin (%)	19.1	15.0	14.8	14.8	15.1
Core profit margin (%)	20.0	15.6	14.8	14.8	15.1
ROA (%)	20.6	13.1	12.1	12.9	13.5
ROCE (%)	25.1	16.0	14.3	15.0	15.4
Asset turnover (x)	1.1	0.9	0.8	0.9	0.9
Current ratio (x)	0.2	0.2	0.2	0.2	0.2
Gearing ratio (x)	0.2	0.9	0.8	0.8	0.6
Interest coverage (x)	105.1	69.2	35.3	36.3	34.7
BALANCE SHEET (Btm)					
Cash & Equivalent	3,151	1,630	1,099	1,231	1,081
Accounts receivable	60	120	95	119	139
Inventory	13,202	28,933	34,715	41,469	46,476
PP&E-net	1,299	2,159	2,118	2,548	2,898
Other assets	1,159	1,369	1,411	1,458	1,510
Total assets	18,871	34,211	39,438	46,825	52,104
Accounts payable	799	1,425	1,251	1,596	1,873
ST debts & current portion	600	4,001	500	300	300
Long-term debt	1,500	9,100	14,600	17,600	17,600
Other liabilities	2,949	4,422	4,422	4,422	4,422
Total liabilities	5,848	18,948	20,774	23,918	24,195
Paid-up capital	2,207	2,207	2,207	2,207	2,207
Share premium	2,207	2,207	2,207	2,207	2,207
Retained earnings	9,454	11,694	15,096	19,338	24,341
Shareholders equity	13,023	15,263	18,664	22,907	27,909
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	18,871	34,211	39,438	46,825	52,104
CASH FLOW (Btm)					
Net income	3,622	3,488	4,453	5,578	6,676
Depreciation and amortization	215.6	246.2	347.9	369.9	449.9
Change in working capital	(1,063)	(14,598)	(5,973)	(6,480)	(4,802)
FX, non-cash adjustment & others	1,399	1,216	0	0	0
Cash flows from operating activities	4,175	-9,648	-1,172	-532	2,323
Capex (Invest)/Divest	(2,422.2)	1,028.7	(306.6)	(800.0)	(800.0)
Others	(36)	(306)	191	0	0
Cash flows from investing activities	(2,458)	723	(116)	(800)	(800)
Debt financing (repayment)	(1,687)	10,732	1,999	2,800	0
Equity financing	15	0	0	0	0
Dividend payment	(725)	(1,214)	(1,046)	(1,336)	(1,673)
Cash flows from financing activities	(2,396.1)	9,518.6	947.9	1,464.2	(1,673.4)
Net change in cash	(679.9)	593.1	(340.1)	131.8	(150.2)
Free cash flow (Btm)	1,752	(8,619)	(1,479)	(1,332)	1,523
FCF per share (Bt)	0.79	(3.91)	(0.67)	(0.60)	0.69
Assumptions					
Presales backlog (Btm)			30,471	6,556	6,038
Revenue secured by backlogs			100%	17%	14%
Housing GM			39.1%	38.0%	38.0%

Sources: Company data, Bualuang Research estimates

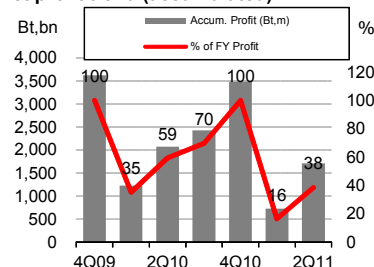
Revenue trend



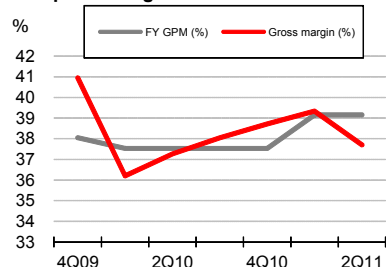
Revenue trend (accumulated)



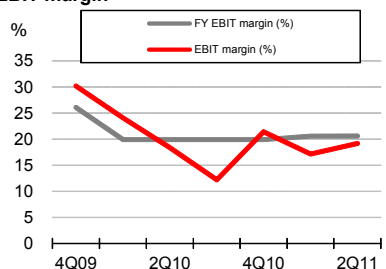
Net profit trend (accumulated)



Gross profit margin



EBIT margin



QUARTERLY PROFIT & LOSS (Btm)

	2Q10	3Q10	4Q10	1Q11	2Q11
Revenue	5,916	3,761	6,974	5,422	6,724
Cost of sales and services	(3,711)	(2,330)	(4,274)	(3,289)	(4,189)
Gross profit	2,205	1,431	2,700	2,133	2,535
SG&A	(1,118)	(973)	(1,204)	(1,203)	(1,245)
EBIT	1,087	459	1,496	930	1,290
Interest expense	(9)	(14)	(29)	(13)	(32)
Other income/exp.	28	26	29	28	55
EBT	1,106	471	1,497	945	1,312
Corporate tax	(265)	(112)	(298)	(214)	(325)
After-tax net profit (loss)	840	359	1,199	731	988
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	(142)	(1)	(7)
Net profit (loss)	840	359	1,057	730	981
Reported EPS	0.38	0.16	0.48	0.33	0.44
Fully diluted EPS	0.38	0.16	0.48	0.33	0.44
Core net profit	840	359	1,199	731	988
Core EPS	0.38	0.16	0.54	0.33	0.45
EBITDA	1,172	546	1,599	1,013	1,434

KEY RATIOS

	2Q10	3Q10	4Q10	1Q11	2Q11
Gross margin (%)	37.3	38.1	38.7	39.3	37.7
EBITDA margin (%)	19.8	14.5	22.9	18.7	21.3
Operating margin (%)	18.4	12.2	21.5	17.2	19.2
Net margin (%)	14.2	9.5	15.2	13.5	14.6
Core profit margin (%)	14.2	9.5	17.2	13.5	14.7
BV (Bt)	6.28	6.44	6.92	7.25	7.20
ROE (%)	24.2	10.1	27.7	18.2	24.7
ROA (%)	14.0	4.9	12.4	7.5	9.5
Current ratio (x)	5.1	6.3	6.3	9.1	8.8
Gearing ratio (x)	0.4	0.7	0.9	1.0	1.2
Interest coverage (x)	121.3	32.7	51.9	73.4	39.9

QUARTERLY BALANCE SHEET (Btm)

	2Q10	3Q10	4Q10	1Q11	2Q11
Cash & Equivalent	3,622	1,357	1,630	1,631	1,942
Accounts receivable	71	96	120	0	0
Inventory	16,766	23,158	28,933	32,398	34,812
PP&E-net	1,522	1,736	2,159	2,592	2,669
Other assets	2,103	2,877	1,369	2,081	1,826
Total assets	24,084	29,224	34,211	38,702	41,250
Accounts payable	2,558	3,138	2,997	2,856	3,106
ST debts & current portion	1,000	4,282	4,001	8,751	10,421
Long-term debt	4,000	5,228	9,100	7,862	8,258
Other liabilities	2,657	2,366	2,850	3,230	3,572
Total liabilities	10,214	15,014	18,948	22,699	25,356
Paid-up capital	2,207	2,207	2,207	2,207	2,208
Share premium	1,362	1,362	1,362	1,371	1,383
Retained earnings	10,310	10,669	11,694	12,460	12,344
Shareholders equity	13,870	14,210	15,263	16,003	15,894
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	24,084	29,224	34,211	38,702	41,250

Sources: Company data, Bualuang Research

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BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF PTTEP DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF SCB DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF SCC DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF SSI DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF STA DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF THAI DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF TRUE DERIVATIVE WARRANTS. Investors should carefully read the details of the derivative warrants in the prospectus before making investment decisions.





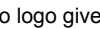
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Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.